

Partners in Education Tax Credit Program Frequently Asked Questions (FAQs) for Scholarship Granting Organizations

This FAQ addresses common questions for scholarship granting organizations (SGOs) regarding the Partners in Education Tax Credit Program ("Program") established by [Senate Bill 159](#), passed in the 2016 Legislative Session. The Program allows contributions to SGOs which provide scholarships for South Dakota students attending primary or secondary nonpublic schools in South Dakota. Insurance companies receive a premium tax credit for their contributions.

What is an SGO?

An SGO is a nonprofit 501(c)(3) organization that receives contributions from donors and grants educational scholarships to eligible students in South Dakota. Insurance companies that contribute to SGOs can receive a premium tax credit.

How do I form an SGO in order to participate in the Program?

Any SGO participating in the Program must have 501(c)(3) designation from the United States Internal Revenue Service ("IRS"), may need to register with the Secretary of State, and must complete the initial application for filing with the South Dakota Division of Insurance ("Division"). You may also want to consider consulting with an attorney or seeking professional advice to assist you in establishing an SGO.

What information must be provided by the SGO in the initial application for the Program?

The initial application to participate in the Program includes basic contact information for the SGO as well as information on its management, officers, employees, and board members. An SGO will need to provide proof that background checks have been completed on the SGO's management, officer, and employees as well as board members; proof the SGO holds a 501(c)(3) status with the IRS; and proof of the SGO's financial (fiscal) year as defined in their governing documents. The initial application is available on the Division's website at www.dlr.sd.gov/insurance.

What are the general responsibilities of the SGO as part of the Program?

An SGO must comply with all the requirements as outlined in the legislation. General responsibilities include, but are not limited to, receiving contributions for educational scholarships, distributing scholarships to eligible students attending qualifying schools, collecting and providing documentation on schools and contributors, issuing required receipts for contributions received from insurance companies seeking tax credit, managing fiscal year administrative costs and revenues, and filing annual reports to the Division and the Auditor General.

Who can contribute to the SGO to raise money for scholarships?

Anyone can contribute, including insurance companies who can seek a tax credit through the Program.

What does the SGO need to do to receive a contribution from an insurance company seeking a tax credit?

Prior to accepting the contribution, the SGO must contact the Division to verify the annual tax credit limit has not been met. The SGO will be asked to provide the insurance company contact information, including their intended contribution. The Division will issue a conditional authorization allowing the SGO to accept the contribution for tax credit.

How does the SGO find out if a tax credit for insurance company contributions is available?

The SGO should contact the Division at SDInsuranceTaxCredit@state.sd.us to verify if a tax credit is available.

Is there a minimum or maximum contribution required for an insurance company to seek a tax credit through the Program?

There is no minimum contribution. The annual cumulative donation for all insurance companies is limited to a total tax credit of \$2,000,000.

How does the process work when receiving a contribution from an insurance company seeking a tax credit?

Prior to accepting the contribution, the SGO must contact the Division to verify the annual tax credit limit has not been met. The SGO will be asked to provide the insurance company contact information, including their intended contribution. The Division will issue a conditional authorization allowing the SGO to accept the contribution for tax credit. The SGO will have up until the date provided with the conditional authorization to complete the transaction and receive the contribution from the insurance company. Once the funds are received from the insurance company, the SGO will provide a receipt to the insurance company and notify the Division that the transaction is complete. Notification of the completed transaction to the Division should be completed as timely as possible to ensure that the conditional authorization of the transaction does not expire and nullify the insurance company's ability to claim a tax credit for their contribution.

If the contribution from the Company accepted by the SGO is in a lesser amount than the contribution authorized in this request, the SGO must notify the Division of the adjusted contribution amount. The authorization for the tax credit associated with the portion of the contribution not collected is nullified. The SGO can request a new authorization for the remaining contribution amount.

If the contribution from the Company accepted by the SGO is greater than the contribution amount authorized in this request, the SGO must notify the Company that the funds contributed over the authorized amount are not eligible for tax credit unless an additional authorization is received from the Division.

What does the SGO have to do when it receives a contribution (associated with a DOI conditional authorization tracking number) from an insurance company?

Upon receipt of the contribution, the SGO must issue the Division approved receipt to the company. The receipt is available at http://dlr.sd.gov/insurance/tax_credit_program.aspx. Notification that the transaction has been completed should immediately be provided to the Division by emailing a copy of the receipt to SDInsuranceTaxCredit@state.sd.us.

Who can receive scholarships from the funds received as part of the Program?

Eligible students attending qualifying primary or secondary nonpublic schools within the state can receive scholarships from the SGO as part of the Program.

How does the SGO identify eligible students for scholarships?

An 'eligible student' is any student who

- a. Is a member of a household whose total annual income, the year before the student enters the program, did not exceed 150% of the income standard used to qualify for free or reduced –price lunch under the national free or reduced lunch program established under 42 U.S.C. section 1751, et seq. as of January 1, 2016;
- b. Received an educational scholarship under this program the preceding semester, attended a public school the preceding semester, is starting at a K-12 school in South Dakota for the first time, or is entering kindergarten, first grade, or ninth grade; and
- c. Resides in South Dakota while receiving the educational scholarship;

If sufficient funding is available, once a student meets the initial income eligibility requirement, the student remains income eligible for three years or if the student is entering high school, until the student graduates high school regardless of household income. After the initial period of income eligibility, a student remains eligible if the student is a member of a household whose total annual income in the prior year did not exceed 200% of the income standard used to qualify for a free or reduced-price lunch.

How does the SGO identify qualifying schools?

A 'qualifying school' is any nonpublic school that operates within the boundaries of South Dakota, is accredited by the Department of Education, provides education to primary or secondary students, and has notified a scholarship granting organization of its intention to participate in the Program and comply with the program requirements. This definition excludes any school that receives a majority of its revenues from public funds. The SGO must annually collect written documentation from each qualifying school that accepts educational scholarship payments to verify its accreditation by the Department of Education.

Is there a maximum value for a scholarship?

The average value of all scholarships awarded by the scholarship granting organization may not exceed 82.5% of the state's share of the per student allocation, as defined in SDCL 13-13-10.1. Further information can be obtained from the Department of Education at 605.773.3134

How are scholarships disbursed by the SGO?

The SGO issues periodic scholarship payments from the educational scholarship fund account in the form of checks made payable to an eligible student's parent. The payment should be mailed to the qualifying school where the eligible student is enrolled. The parent will be required to endorse the check before it may be deposited.

When are scholarships disbursed by the SGO?

Half of the scholarship amount is paid at the beginning of the first semester of a school year and half at the beginning of the second semester.

What amount of contributions may be used by the SGO for scholarships?

The SGO must ensure that at least 90% of its contributions received through the Program are spent on educational scholarships, and that all revenue from interest or investments is spent on scholarships.

What if the SGO has received contributions from insurance companies seeking a tax credit and the funds are not awarded for Program scholarships?

An SGO cannot carry forward more than 25% the total contributions received from insurance companies seeking a tax credit from the fiscal year in which they were received to the next fiscal year. Contributions that are not carried forward must be remitted to the Division.

What reports must the SGO complete as a Program participant?

The SGO must submit a financial information report as prepared by a certified public accountant to the Auditor General. This report is required to be filed within 180 days after the completion of the scholarship granting organization's fiscal year.

The SGO must file the *Annual Report and Participation Renewal or Withdrawal form* with the Division by March 1. The *Insurance Company Contributions Detail Worksheet* as prepared by a certified public accountant must accompany this report. This report notifies the Division of the SGO's intent to continue its participation in the Program in the next school year and provides information regarding the contributions received from insurance companies in the previous calendar year.

What must be included in the SGO's financial report submitted to the Auditor General?

The scholarship granting organization must annually submit to the Auditor General of South Dakota a financial information report that complies with uniform financial accounting standards and is the result of an audit conducted by a certified public accountant. The scholarship granting organization must provide the audit to the auditor general within 180 days after the completion of the scholarship granting organization's fiscal year. The Department of Legislative Audit, Office of the Auditor General may be reached at 605.773.3595.

The Auditor General may conduct a financial review or audit of the SGO if evidence of fraud exists.

What is in the SGO Annual Report and Participation Renewal or Withdrawal form filed with the Division?

The *Annual Report and Participation Renewal or Withdrawal form* provides a summary of the SGO's activities for the calendar year and notifies the Division of the SGO's intent to continue or withdraw from the Program. The *Insurance Company Contributions Detail Worksheet* as prepared by a certified public accountant must accompany this report. The worksheet includes the name and address of each contributing insurance company, the total dollar amount of contributions received from each insurance company, the total number and total dollar amount of educational scholarships awarded to eligible students, and the total number and total dollar amount of educational scholarships awarded to low-income eligible students*, and the percentage of first-time recipients of educational scholarships who were enrolled in a public school in the prior school year or is starting at a K-12 school in South Dakota for the first time.

*A "low-income eligible student," any student who is a member of a household whose total annual income, the year before the student enters the program, did not exceed one hundred percent of the income standard used to qualify for a free or reduced-price lunch under the national free or reduced-price lunch program established under 42 U.S.C. section 1751, et seq. as of January 1, 2016.

Forms and additional information on the Program are available on the Division's website at www.dlr.sd.gov/insurance.

Where do I go with questions?

Questions from students/parents on qualifying for a scholarship should be directed to a participating SGO. Questions on the annual financial statement to be filed with the Auditor General can be directed to the Legislative Audit Office at 605.773.3593. Questions on the Program can be directed to the Division by email at SDInsuranceTaxCredit@state.sd.us or by phone at 605.773.3563.